

Message Text

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12/66

ACTION AID-05

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 FRB-03 INR-07

NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01 CEA-01 FEA-01

AGR-05 NEA-09 INT-05 /080 W
----- 129463

R 231525Z JAN 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 6482

INFO AMEMBASSY ISLAMABAD

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

LIMITED OFFICIAL USE SECTION 1 OF 2 NEW DELHI 1100

C O R R E C T E D C O P Y (PARA ONE)

DEPARTMENT PASS AID

E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: ECONOMIC CRISIS: REVIEW OF INDIA'S BALANCE OF
PAYMENTS SITUATION

REF: (A) STATE 275634 (B) STATE 006000 (C) NEW DELHI 0710

SUMMARY. THIS MESSAGE RESPONDS TO REQUEST CONTAINED REF (A) FOR
INFORMATION ON INDIA'S BALANCE OF PAYMENTS. THE EMBASSY
ESTIMATES THAT INDIA HAD A BALANCE OF PAYMENTS DEFICIT OF
\$518 MILLION IN CY 1974 AND PROJECTS A DEFICIT OF \$500 MILLION
IN 1975. THE 1974 DEFICIT WAS WHOLLY FINANCED BY DRAWINGS ON
THE FUND AND WE BELIEVE INDIA WILL FINANCE MOST OF ITS
PROJECTED 1975 DEFICIT BY DRAWING ON THE NEW OIL FACILITY.
END SUMMARY.

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1. INDIA'S BALANCE OF PAYMENTS FOR CY'S 1973, 1974, AND 1975
ARE AS FOLLOWS (ALL FIGURES IN MILLIONS OF U.S. DOLLARS):

| | ACTUAL | ESTIMATED | PROJECTED |
|--|--------|-----------|-----------|
| | 1973 | 1974 | 1975 |

| | | | |
|--|-------|---------|---------------|
| EXPORTS | 2,958 | 3,850 | 4,250 |
| COTTON TEXTILES | (301) | (410) | (410) |
| JUTE GOODS | (320) | (350) | (350) |
| TEA | (187) | (240) | (260) |
| SUGAR | (35) | (310) | (320) |
| IMPORTS, C.I.F. | 3,146 | 5,000 | 5,500 |
| FERTILIZER | (205) | (450) | (450) |
| POL | (447) | (1,300) | (1,350) |
| FOODGRAINS | (455) | (1,000) | (1,400) |
| TRADE BALANCE | - 188 | -1,150 | -1,250 |
| NET SERVICES | - 298 | - 308 | - 320 |
| BALANCE ON GOODS AND SERVICES | | - 486 | -1,458 -1,570 |
| OFFICIAL CAPITAL, NET | 658 | 1,141 | 1,285 |
| UNITED STATES | (-) | (60) | (150) |
| OTHER DAC | (628) | (631) | (875) |
| OPEC | (-) | (200) | (300) |
| COMMUNIST COUNTRIES | | (30) | (250) (-40) |
| NET TRANSFERS, PRIVATE CAPITAL, NET, | | | |
| AND E & O | - 210 | - 202 | - 215 |
| OVERALL BALANCE | - 38 | - 510 | - 500 |
| FINANCED BY: | | | |
| IMF OIL FACILITY | - | 241 | 500 |
| IMF, OTHER | - | 359 | - |
| OTHER S.T. BORROWINGS | - | - | - |
| CHANGE IN RESERVES (PLUS EQUALS DECR.) | 38 | - 82 | - |
| MEMORANDUM ITEMS | | | |
| DEBT SERVICE | 720 | 730 | 740 |
| FOREIGN EXCHANGE RESERVES, GROSS | 1,142 | 1,224 | 1,224 |
| (YEAR END) | | | |

2. ABOVE NUMBERS BASED ON FOLLOWING METHODOLOGY, SOURCES AND ASSUMPTIONS:

(A) NET TRANSFERS HAVE BEEN COMBINED WITH PRIVATE CAPITAL AND ERRORS AND OMISSIONS FOR 1973 AND 1974 TO ALLOW US TO USE THE IMF'S LATEST BALANCE OF PAYMENTS PROJECTIONS FOR INDIA LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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(EBS/74/354, OCT. 8, 1974); WHICH GROUPS ACCOUNTS IN THIS MANNER. DATA ON NET SERVICES FOR CY'S 1973 AND 1974 ARE ALSO TAKEN FROM THIS FUND DOCUMENT. BECAUSE THIS SOURCE GROUPS NET TRANSFERS WITH PRIVATE CAPITAL TRANSACTIONS, WE HAVE PRESENTED A BALANCE OF GOODS AND SERVICES RATHER THAN A BALANCE ON CURRENT ACCOUNT.

(B) AGGREGATE TRADE DATA FOR 1973 ARE TAKEN FROM "DIRECTIONS OF TRADE" RATHER THAN FROM EBS/74/354. AGGREGATE 1974 TRADE FIGURES ARE EMBASSY ESTIMATES BASED ON PRELIMINARY ELEVEN MONTH DATA. IN ESTIMATING FOODGRAIN IMPORTS WE HAVE PRICED THEM AT \$210/MT (INCLUDING FREIGHT) FOR THE 4.7 MILLION TONS

THAT ARRIVED IN 1974. WE ESTIMATE THAT ABOUT 7 MILLION TONS OF FOODGRAINS WILL ARRIVE IN CY 1975 (INCLUDING ABOUT 3.8 MILLION ALREADY CONTRACTED FOR) AT A UNIT COST SLIGHTLY LESS THAN THE 1974 COST.

(C) WHILE THE POL IMPORT BILL TRIPLED IN 1974 WE ASSUME THAT NEITHER QUANTITY NOR PRICE WILL INCREASE MUCH IN 1975. THE FERTILIZER IMPORT BILL IS LOWER THAN HAD BEEN ASSUMED EARLIER DUE MAINLY TO LACK OF SUFFICIENT AVAILABILITIES AT PRICES INDIA WAS WILLING TO PAY.

(D) AFTER THE ENORMOUS INCREASES IN THE DOLLAR VALUE OF BOTH IMPORTS AND EXPORTS IN 1974, WE ARE ASSUMING A 10 PERCENT INCREASE IN BOTH EXPORTS AND IMPORTS IN 1975.

(E) DATA ON OFFICIAL CAPITAL FOR U.S., OTHER DAC AND COMMUNIST COUNTRIES COME MAINLY FROM VOLUME III OF THE WORLD BANK'S ECONOMIC SITUATION AND PROSPECTS OF INDIA, DATED MAY 7, FISCAL YEAR BASIS. THE REASON FOR THE VERY HEAVY CONCENTRATION IN 1974 OF COMMUNIST COUNTRY AID WAS THE ARRIVAL OF 1.6 MILLION OF THE 2 MILLION RUSSIAN WHEAT LOAN DURING THAT YEAR.

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LIMITED OFFICIAL USE SECTION 2 OF 2 NEW DELHI 1100

(F) THE 1974 FIGURE FOR U. S. NET AID ASSUMES \$70 MILLION OF TITLE II, \$45 MILLION OF DEBT RELIEF AND \$30 MILLION OF DISBURSEMENTS FROM THE PIPELINE, LESS \$85 MILLION OF PRINCIPAL REPAYMENTS. U. S. FIGURE FOR 19# ASSUMES \$75 MILLION OF TITLE

II, \$110 MILLION OF TITLE I (300,000 TONS EACH IN U.S. FYS 1975 AND 1976), \$50 MILLION OF DL DISBURSEMENTS, LESS \$85 MILLION IN PRINCIPAL REPAYMENTS. DATA ON OPEC NET AID IN 1975 ASSUMES INDIA WILL SECURE ADDITIONAL BILATERAL RELIEF FROM OPEC COUNTRIES THIS YEAR.

(G) THE \$518 MILLION DEFICIT FIGURE FOR 1974 IS BASED ON A PRELIMINARY BUT OFFICIAL FIGURE ON GOI FOREIGN CURRENCY BALANCES AS OF JANUARY 3, 1975.

3. THIS PARAGRAPH RELIES TO QUESTIONS RAISED IN PARA 5, REF (A).

(A) INDIA'S REAL GNP IN CY 1974 IS ESTIMATED TO HAVE DECLINED BY ABOUT ONE PERCENT. ASSUMING AN AVERAGE MONSOON IN CY 1975, WE EXPECT REAL GNP TO INCREASE BY 3-4 PERCENT. THE QUANTUM JUMPS IN THE PRICE OF POL AND FERTILIZER HAD LESS EFFECT LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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ON THE INDIAN ECONOMY THAN HAD BEEN INITIALLY FEARED. WHILE IT IS TRUE THAT, OTHER THINGS BEING EQUAL, INDIA WOULD HAVE USED LARGER AMOUNTS OF POL AND FERTILIZER THAN IT DID IN 1974, THE DECLINE IN INDIA'S GROWTH RATE LAST YEAR WAS MAINLY DUE TO A DECLINE IN AGRICULTURAL OUTPUT REFLECTING THE POOR MONSOON.

(B) THE POL AND FERTILIZER PRICE INCREASES OF 1974 HAD LITTLE IMPACT ON INDIA'S IMPORT POLICY SINCE INDIA'S ALREADY EXISTING SEVERE IMPORT RESTRICTIONS LEFT LITTLE ROOM FOR FURTHER CUTS. FORTUNATELY, FOR INDIA, EXPORTS IN 1974 ROSE BY ALMOST 30 PERCENT, WHICH SUBSTANTIALLY INCREASED FOREIGN EXCHANGE AVAILABILITIES TO FINANCE IMPORTS.

(C) INDIA'S LONG-TERM ENERGY POLICY IS TO REDUCE ITS DEPENDENCE ON IMPORTED PETROLEUM. THE STRATEGY TO ACHIEVE THIS IS BASED ON SUBSTITUTION OF COAL FOR OIL IN SOME PARTS OF INDIA AND EXPLORATION AND EXPLOITATION BY THE COUNTRY'S OFF AND ON-SHORE OIL AND NATURAL GAS SOURCES. BASED ON PROGRESS IN THE BOMBAY HIGH AREA, INDIA MAY BE ABLE TO PRODUCE TWO-THIRDS OF ITS POL REQUIREMENTS BY 1980. IF OTHER PROMISING, BUT YET UNPROVEN FIELDS IN THE GULF OF KUTCH AND BAY

OF BENGAL PROVE OUT, INDIA COULD BE SELF-SUFFICIENT BY THE MID-1980S. RAPID PRICES INFLATION IN INDIA HAS CAUSED A FURTHER SKEWING OF INDIA'S PATTERN OF INCOME DISTRIBUTION AND TO THE EXTENT THAT OIL HAS CONTRIBUTED TO INFLATION, IT HAS ALSO CONTRIBUTED TO FURTHER SKEWING OF THE PATTERN OF INCOME DISTRIBUTION.

(D) INDIA LINED UP \$200 MILLION OF BALANCE OF PAYMENTS SUPPORT IN 1974 FROM IRAN AND IRAQ AND EXPECTS TO RECEIVE THIS SUPPORT AGAIN IN 1975.

ALTHOUGH INDIA HAS RECEIVED NO ADDITIONAL FIRM COMMITMENTS THUS FAR, WE BELIEVE INDIA IS TRYING TO SECURE, AND WILL SECURE, ADDITIONAL BALANCE OF PAYMENTS SUPPORT THIS YEAR. INDIA AND IRAN ARE ALSO TRYING TO WORK OUT JOINT INVESTMENT PROJECTS, AND IRAN HAS INDICATED A WILLINGNESS TO INVEST UP TO \$500 MILLION IN

INDIA FOR PROJECTS SUCH AS KUDREMUH.
SCHNEIDER

NOTE BY OC/T: #AS RECEIVED, CORRECTION TO FOLLOW.

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